

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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December 9, 2008

Les Beshears, Finance Director
Council of Fresno County Governments
2035 Tulare Street, Suite 201
Fresno, CA 93721

Re: Council of Fresno County Governments
Audit of Indirect Cost Allocation Plan FY 2008/09
File No: P1190-0702

Dear Mr. Beshears:

We have audited the Council of Fresno County Governments (COFCGs) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2009 to determine whether the ICAP is presented in accordance with Title 2 of the Code of Federal Regulations, part 225 (2 CFR 225 formerly Office of Management and Budget (OMB) Circular A-87) and the Department of Transportation's (Department) Local Program Procedures (LPP) 04-10. COFCG management is responsible for the fair presentation of the ICAP. COFCG proposed an indirect cost rate of 51.86% of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of COFCG. Therefore, we did not audit and are not expressing an opinion on COFCG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by COFCG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the 2 CFR 225 and the Department's LPP 04-10, and is not intended to present the results of operations of COFCG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of COFCG's Overall Work Program (OWP) for fiscal year 2008/09, a review of COFCG's single audit report for the fiscal year ended June 30, 2007, inquiries of COFCG personnel and prior audit field work performed by the Department on December 19, 2006. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations take into consideration COFCG's response to our findings. Our findings and recommendations, a summary of COFCG's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, COFCG's ICAP for the fiscal year ended June 30, 2009 is presented in accordance with 2 CFR 225 and LPP 04-10. The approved indirect cost rate is 51.86% of total direct salaries and wages, plus fringe benefits for the fiscal year ended June 30, 2009. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates. There was one item discovered during the review of the OWP that was required to be adjusted prior to the approval of the rate.

AUDIT FINDINGS

Finding 1

COFCG included the budgeted labor costs of the Executive Director that are indirect in nature as direct costs in the direct work elements of the OWP. Appendix B to 2 CFR Part 225 (19)(b) explains that *"For federally-recognized Indian tribal governments and Councils of Governments (COGs), the portion of salaries and expenses directly attributable to managing and operation Federal programs by the chief executive and his staff is allowable..."*

Recommendation

COFCG should include the allowable indirect portion of the Executive Director's labor costs in the indirect labor cost pool. In addition, the COFCG should ensure that the Executive Director costs are not direct billed through the OWP work elements.

COFCG Response

We discussed this item with Les Beshears, Finance Director, via a telephone call on August 14, 2008. Mr. Beshears agreed to comply with the recommendation.

Analysis of Response

COFCG agreed to the finding.

Finding 2

COFCG included budgeted costs to pay membership dues to the National Association of Regional Councils (NARC) in their ICAP. Appendix B to 2 CFR Part 225 (24)(a) states: *General. The cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost.* NARC is involved in lobbying activities, therefore a portion of their membership dues are unallowable.

Recommendation

COFCG should exclude all lobbying activity costs from the ICAP.

COFCG Response

NARC is a 501(c)(3) Non Profit Organization that is forbidden from lobbying by law. The organization does intergovernmental communications, provides education, training, and various coordination functions, the scope of which, do not fall within the definition of lobbying activities. NARC asserts that they do not have a Political Action Committee, do not make contributions to politicians, or try to influence their votes, and testify on Capitol Hill by invitation only.

Analysis of Response

Under Internal Revenue Service regulations, 501(c)(3) Non-Profit Organizations are limited, but not restricted, from lobbying activities. The response does not provide any additional information that would change the finding. The initial finding remains as stated.

This report is intended solely for the information of COFCG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 6, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Kesh Braeger, Auditor, at 916-323-7886 or Amada Maenpaa, Audit Supervisor, at 916-323-7868.


MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments

- c: Sue Kiser, FHWA
- Brenda Bryant, FHWA
- Jim Perrault, District 6
- Gary Buckhammer, HQ Accounting
- Andrew Knapp, HQ Planning
- Ken Okereke, ORIP District 6
- Dan Mundy, HQ Mass Trans

**Council of Fresno County Governments
Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the *Council of Fresno County Governments* and approved by Caltrans.

SECTION I: Rates

Rate Type	Effective Period	Rate*	Applicable To
Fixed with carry forward	7/1/08 to 6/30/09	51.86%	All Programs

*Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements—any

differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation

FY 2008/09 Budgeted Indirect Costs	\$ 826,188
Carry Forward from FY 2005/06	<u>46,556</u>
Estimated FY 2008/09 Indirect Costs	\$872,744
FY 2008/09 Budgeted Direct Salaries and Wages plus fringe Benefits	\$1,682,757
FY 2008/09 Indirect Cost Rate	51.86%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008/09 (July 1, 2008 to June 30, 2009) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Council of Fresno County Governments

Signature: Tony Boren Signature: Les Beshears

Reviewed, Approved and Submitted by:	Prepared by:
Name of Official: Tony Boren	Name of Official: Les Beshears
Title: Executive Director	Title: Finance Director
Date of Execution: 06/09/08	Phone: 559 233-4148

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Mary Ann Cambell-Smith
Signature
Reviewed and Approved by:
Mary Ann Cambell-Smith
Title: Chief of External Audits
Date: 12/8/08
Phone Number: (916) 323-7105

Keshava Braeger
Signature
Reviewed and Approved by:
Keshava Braeger
Title: Auditor
Date: 12/8/08
Phone Number: (916) 323-7915

Attachment 1

Council of Fresno County Governments
2008/09 Budget

	Direct Costs	Indirect Costs	Other Program Costs	Total Budget
Salaries	1,223,937	316,175	358,937	1,899,049
Fringe Benefits	458,820	106,870	138,136	703,826
Total	1,682,757 *	423,045 **	497,073	2,602,875
Indirect Costs				
Telephone		9,000		9,000
Membership/Dues		5,000		5,000
Insurance		20,000		20,000
Postage		19,000		19,000
Printing Supplies		23,664		23,664
Office Supplies		24,000		24,000
Publ. & Subscript.		3,500		3,500
Advertising & Legal Notice		12,000		12,000
Computer Supplies		14,500		14,500
Office Lease		193,700		193,700
Bldg. Operating Expense		10,000		10,000
Copier Lease		23,600		23,600
Repair & Maint.		1,850		1,850
Travel Expenses		26,000		26,000
Audit		10,500		10,500
Total Indirect		396,314 ***	0	396,314
Other Direct Costs			8,022,009	8,022,009
Agency Pass Through			479,700	479,700
Total Budget	1,682,757	819,359	8,998,782	11,500,898
Depreciation		6,829		
Total Indirect Costs		826,188		

Per Attachment 3

* Executive Director is charged as a Direct Costs to appropriate
Local Work Elements, supported by time cards, and Indirectly to Federal Programs

* Indirect Support Staff Time spent on ineligible activities have been
been removed from Indirect Costs and charged Direct to Local Programs

***Temporary Service, CalCOG Dues, & Travel in excess of State
Policy have been removed from Indirect Cost and Charged to
Other Directs Costs local funded programs.

Attachment 2

Council of Fresno County Governments
Cost Carry Forward Provision

Fiscal Year	2005/06	2006/07	2007/08	2008/09
Approved Rate	68.03%	67.78%	54.89%	Proposed Rate 51.86%
Indirect Calculation				
Prior Year Carry Forward	50,657	27,173	9,487	Prior year Carry Forward 46,556
Indirect Costs Per Single Audit Travel Expense Adj.	633,826	758,265	(2,673)	Estimated Indirect Costs 826,188
Total Indirect Costs	684,483	782,765		Total Indirect Costs 872,744
Recovered Costs (Direct Salaries + Benefits) * Approved Rate	674,996	736,209		Estimated Direct Salaries + Benefits 1,682,757
Future Year Carry Forward	9,487	46,556		
Direct Salaries + Benefits (Per Single Audit)	992,204	1,086,175		

Attachment 3

Council of Fresno County Governments 2008/09 Indirect Cost Plan

Adjustment for Ineligible Activities

	Executive Director	Executive Assistant	Secretary
Salary	149,444	55,521	45,368
Benefits	41,825	30,638	10,001
Total Salary & Benefits	191,269	86,159	55,369

Annual Hours	2,080	2,080	2,080
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Salary Rate	71.85	26.69	21.81
Benefit Rate	20.11	14.73	4.81

Ineligible Activities

Other Local Project Admin.	267		
One Voice Advocacy	120	40	
Board Meetings	35	10	35
Total Ineligible Hrs.	422	50	35

Ineligible Salaries	30,319.89	1,334.64	763.40
Ineligible Benefits	8,485.65	736.49	168.29
Ineligible Costs	\$38,805.54	\$2,071.13	\$931.69

	Professional Staff	FCRTA Staff	FAX Staff	Support Staff	Total Staff
Salaries & Benefits	1,832,217	259,137	237,936	273,585	2,602,875
Executive Director	(191,269)			191,269	0
Executive Director adj.	38,806			(38,806)	0
Executive Assistant adj.	2,071			(2,071)	0
Secretary adj.	932			(932)	0
Subtotal	(149,460)	0	0	149,460	0
Adj Salaries & Benefits	1,682,757	259,137	237,936	423,045	2,602,875
			497,073		